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Canada

Canadian Dairy Support Price of Skim Milk Powder Drops

Report Categories:

Dairy and Products

Policy and Program Announcements

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Report Highlights:

The Canadian Dairy Commission issued a press release on January 15, 2015, stating that it would be reducing the support price for skim milk powder effective March 1, 2015, from 6.4754 to 6.3109 Canadian dollars per kilogram (a 16-cent or 2.47 percent drop.)

Canadian Dairy Commission Reduces Support Price for Skim Milk Powder

The Canadian Dairy Commission issued a press release on January 15, 2015, stating that it would be reducing the support prices for skim milk powder effective March 1, 2015. An announcement in a **reduction** in support prices is unprecedented. The press release says that it will decrease the support price for skim milk powder from 6.4754 to 6.3109 dollars per kilogram (16 cents drop.) Note: USD 1 = CAD 1.21) The support prices for butter will remain unchanged at 7.4046 dollars per kilogram. The reason given for this price reduction is that there has been a decrease in the cost of milk production in Canada over the last year (lower costs for fuel, transportation costs, and feed). Support prices are the prices at which the CDC purchases and sells butter and skim milk powder within the frameworks of its various programs. These support prices are then used by the provincial marketing boards to negotiate the prices that will be paid by processors for the portion of the milk that is used in the production of dairy products. Processors then determine the prices that consumers will pay for the products. The Canadian dairy industry has struggled with very slow consumption growth rates due to a variety of factors including a very slow population growth rate, changing tastes, high prices, and increasing popularity of dairy substitutes. Whether or not this incentive will actually increase consumption rates of dairy at the retail level is difficult to gauge. Ultimately, it may depend on how much of this price decrease is passed on to consumers.

Reactions to Skim Milk Powder Price Support Reduction:

This news was well received by the Canadian restaurant and food services industry which has long lobbied against the consistent increases in dairy support prices arguing that the increases have historically outpaced both the consumer price index, and the farmer's own cost of production. Restaurants Canada (formerly the Canadian Restaurants and Foodservices Association (CFRA)) believes that the high dairy prices have resulted in a declining usage of dairy by restaurants and believes that this decrease can help stop the trend. Restaurants Canada underscores in its press release that they expect the Canadian dairy processors to pass on the full-price reductions to restaurateurs. Their press release can be found at the following URL address: <https://www.restaurantscanada.org/en/News-Release-Restaurants-Canada-welcomes-dairy-price-drop>

The Canadian Dairy Commission chairman is quoted as saying that he hopes that this price reduction will help grow the demand for dairy products, but does not go as far as to say that it will translate into a reduction of dairy prices for consumers. He states that at the retail level, cost factors such as manufacturing, transportation, distribution and packaging also go into what consumers pay. The news release issued by the Canadian Dairy Commission can be found at the following URL address: http://www.cdc-ccl.gc.ca/CDC/userfiles/file/PRICING_-_press_release_-_decrease_-_January%202015.pdf

There has been no public comment from Dairy Farmers of Canada. For dairy producers, according to the CDC, this decrease in support price should translate into a decrease of 1.8% or \$1.49 per hectolitre for industrial milk used to make dairy products. The Dairy Farmers of Canada have expressed significant concerns over the impact that the increase in cheese quota granted to Europe through the CETA deal will have on dairy farmer's bottom line and it is highly unlikely that a drop in support prices is viewed as something positive.

Evolution of Dairy Support Prices:

Support prices for butter and skim milk powder are reviewed annually by the Canadian Dairy Commission in order to establish the support prices for the coming year. The elements included in this analysis are: results of the cost of production study, arguments presented by various stakeholders, an evaluation of the processors' margin, economic indicators such as the consumer price index as well as their own experience and knowledge of the industry.

The table below presents the evolution of butter and skim milk powder support prices over the last 10 years. Upwards adjustments were made twice in 2008 (February and September) due to sharply increasing direct farms costs such as feed, fuel and fertilizers.

Table 1: Evolution of Dairy Support Prices (2000-2014)		
Support Prices (\$/kg)		
Year	Butter	Skim Milk Powder (SMP)
2014	7.4046	6.4754
2013	7.3379	6.4170
2012	7.2810	6.3673
2011	7.1922	6.2721
2010	7.1024	6.1783
2009	7.1024	6.1783
2008 (Sept.)	7.0462	6.1125
2008 (Feb.)	6.9316	5.9835
2007	6.8695	5.9212
2006	6.8695	5.8337
2005	6.8695	5.7282
2004	6.2968	5.3928
2003	6.1061	5.1966
2002	5.9011	4.9859
2001	5.7261	4.8394
2000	5.5407	4.6842

Source: Canadian Dairy Commission; <http://www.cdc-ccl.gc.ca/CDC/index-eng.php?link=115>